



Overview of Governor Gregoire's Operating Budget

January 3, 2011

Prepared by Senate Ways and Means Staff

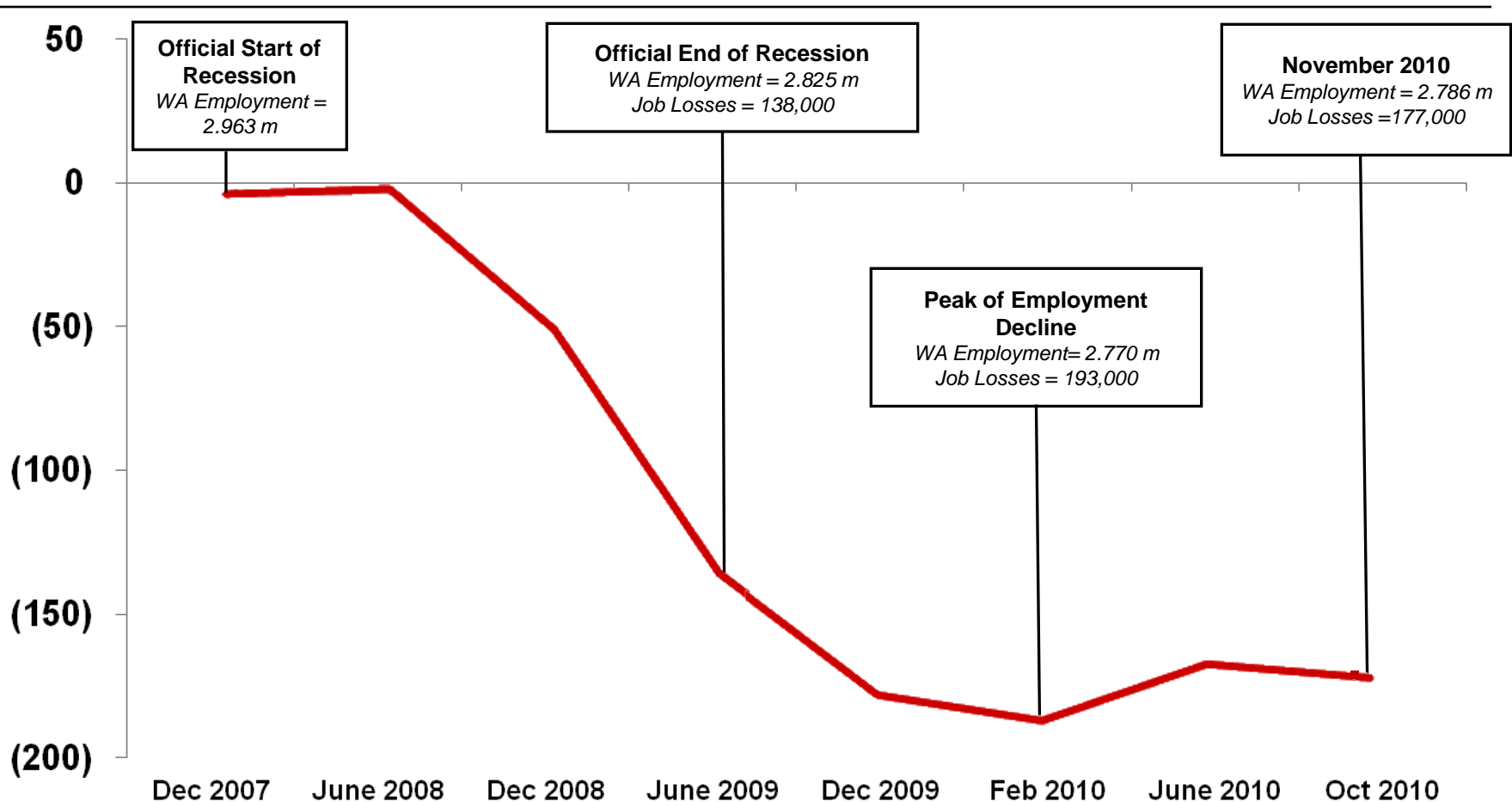


Budget Context

Economists have termed this economic downturn as the “Great Recession” because of its impact and duration

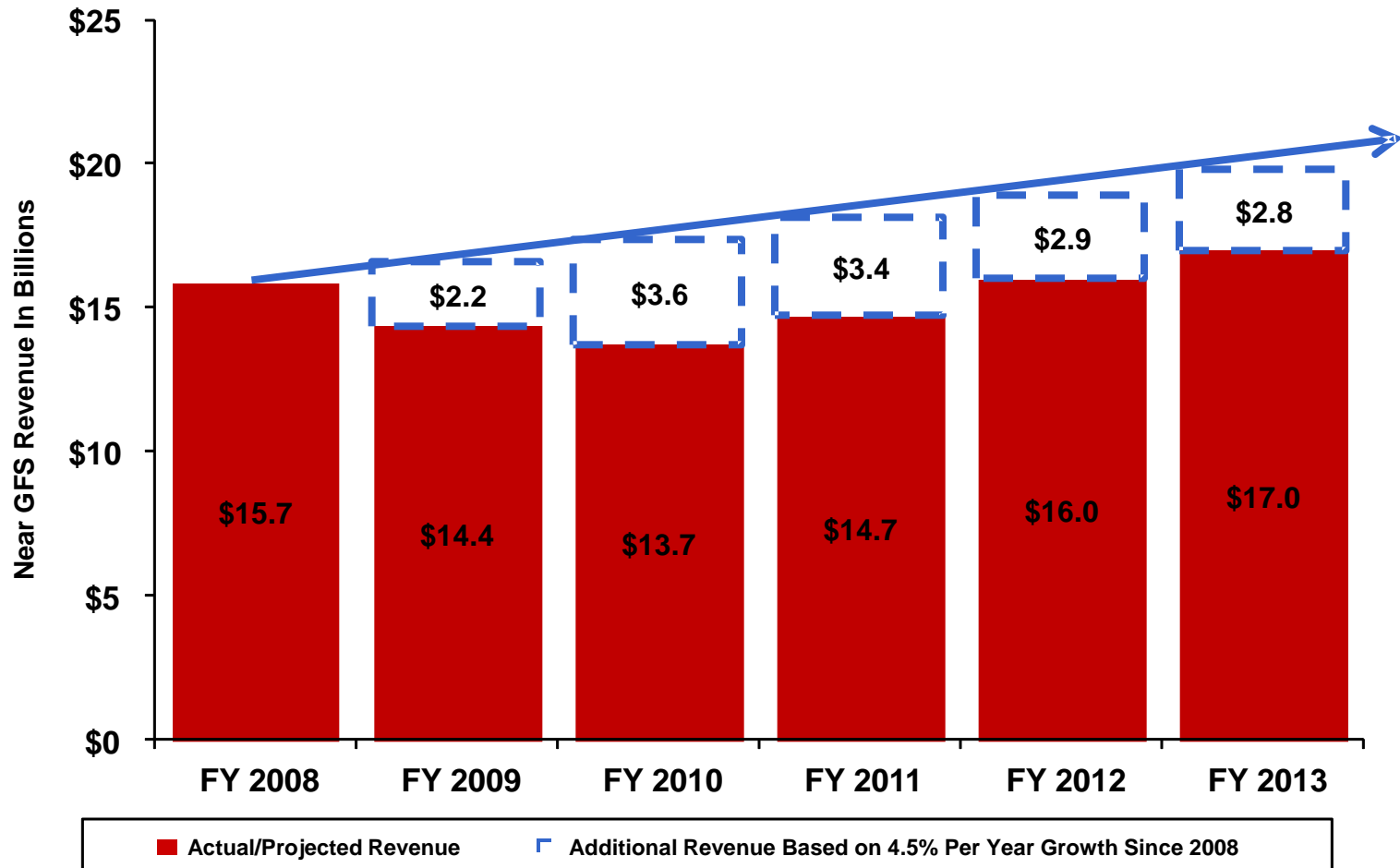
Recession	<u>Peak to Trough % Decline</u>		Recession Duration
	Real GDP	Employment	
	<i>Percent</i>	<i>Percent</i>	<i>Months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
Average	1.8	2.6	10
2007-09	4.1	6.1	18

In the recession, Washington state lost 193,000 jobs and has only regained about 16,000 so far



Source: Employment Security Department seasonally adjusted non-farm employment. Totals may differ slightly due to rounding.

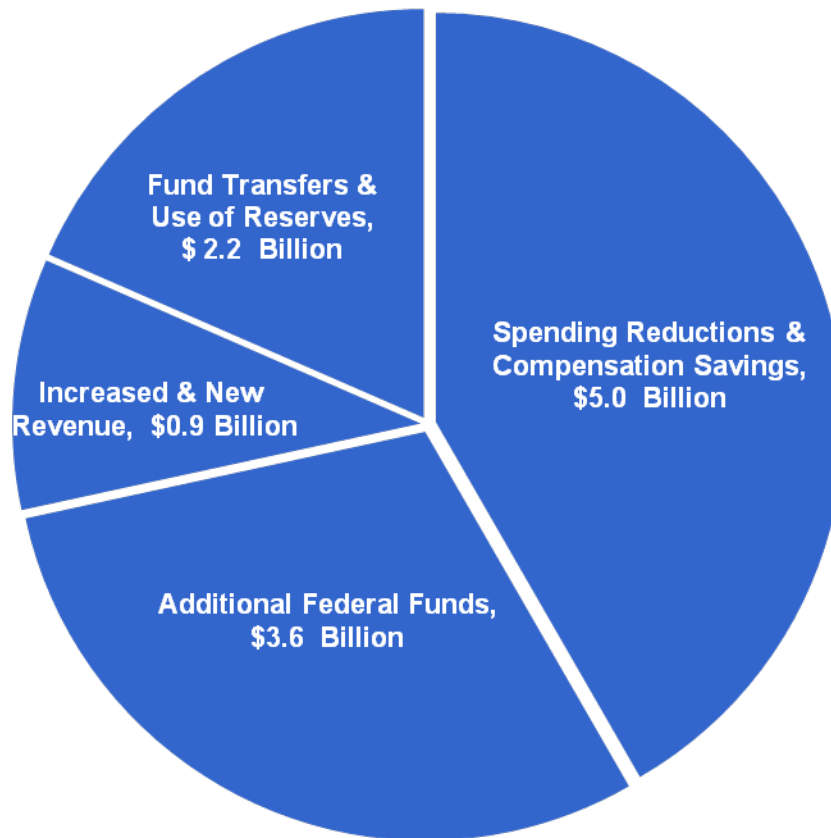
As a result of economic conditions, near GF-S revenues have declined significantly. To give a sense of this impact, if revenues had grown at the historical average since 2008, near GF-S resources would be about \$15 billion higher between 2009-2013



* FY 2010 – FY 2013 based on the November 2010 revenue forecast .

Three Year Operating Budget Solution

2009 and 2010 Legislative Sessions – As Passed Legislature Before Veto Actions



Total Budget Solution Fiscal Years 2009 - 2011= \$11.8 Billion

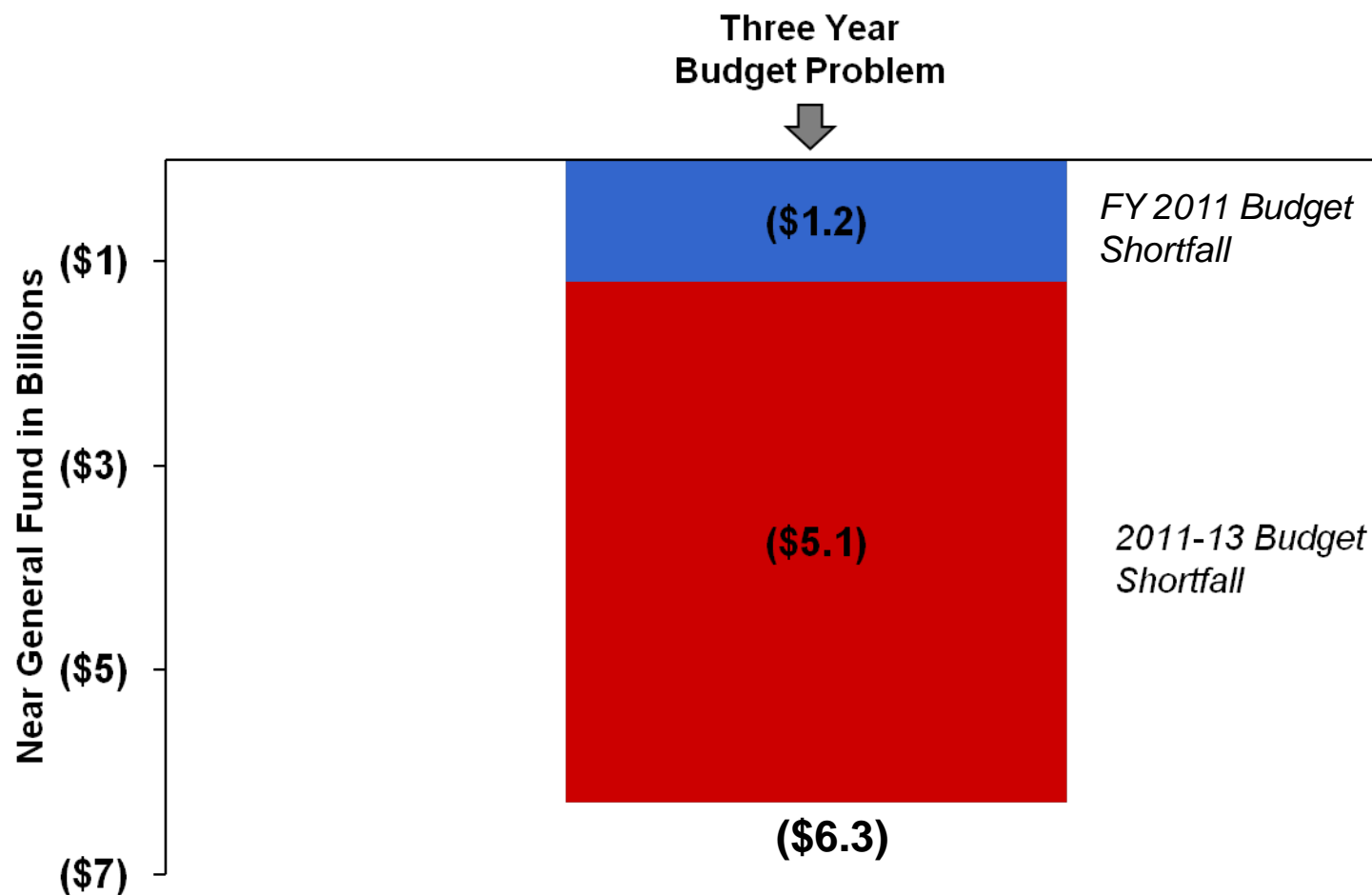


Selected Examples of 2009-11 Compensation Savings and Budget Reductions

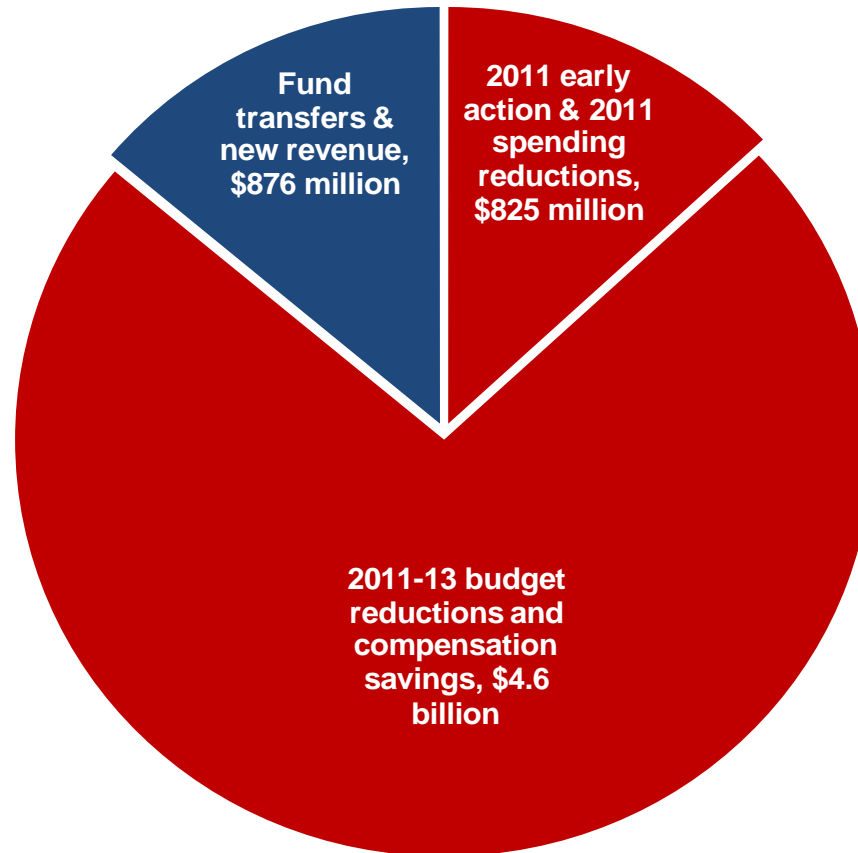
- ❑ *\$388 million in savings from suspending Initiative 732.*
- ❑ *\$448 million in savings by modifying the actuarial assumptions and methods used for determining public employee retirement contributions.*
- ❑ *\$710 million in savings from Initiative 728 and other class size reductions.*
- ❑ *\$630 million in savings from reducing funding to state colleges and universities (partially offset by tuition increases).*
- ❑ *Over \$300 million savings from administrative reductions and furloughs.*
- ❑ *\$255 million from an approximate 40 percent reduction to the Basic Health Plan.*
- ❑ *\$247 million in savings from corrections and criminal justice, including facility closures and capacity reductions.*

New Budget Problem

Due to the weak recovery, caseload increases, and other spending demands, the Legislature is facing an additional budget shortfall of over \$6 billion



The Governor budget solution includes \$5.4 billion in spending reduction and compensation savings and \$876 million in various fund transfers and some new revenue (e.g. waiver of penalty and interest, revenue auditors, liquor price increases)



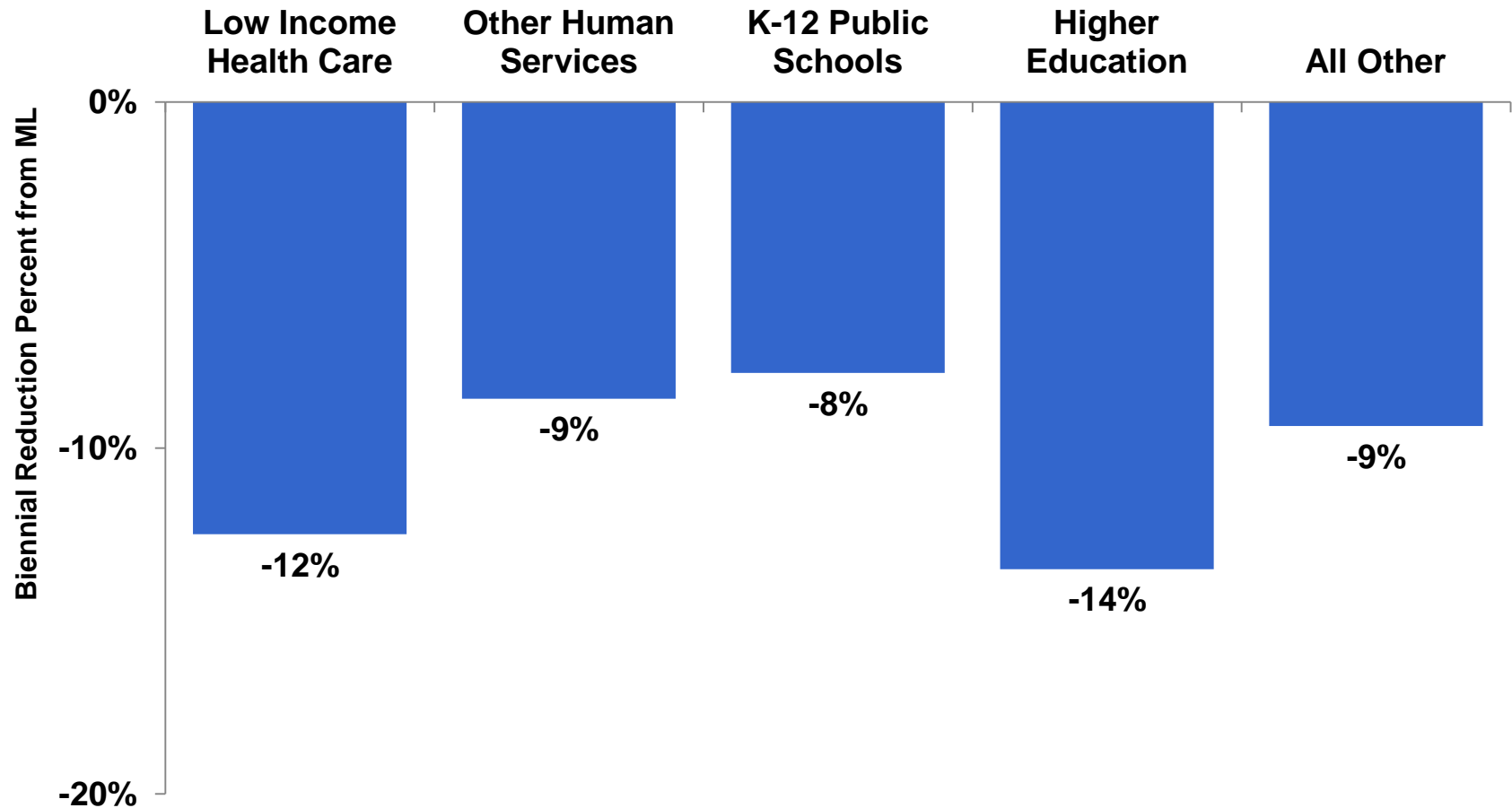
Governor's Three Year Budget Solution = \$6.3 Billion

Governor's Budget Proposal

Examples of Reductions Included in 2011-13 Budget Solution

- *\$1.1 billion in reductions to state and K-12 employee compensation, including: (1) cancelling Initiative 732 salary increases; (2) reducing salaries for most state employees by 3 percent; (3) eliminating “step” increases and National Board certification bonuses for K-12 teachers; and (4) eliminating automatic pension COLAs for certain retirees and other pension changes.*
- *\$1.2 billion in reductions to K-12 system, including suspending Initiative 728 per student distributions and eliminating the K-4 class size enhancement.*
- *Over \$680 million in health care reductions, including eliminating state only funded health care coverage to: (1) 69,000 people on the Basic Health Plan; (2) 22,000 clients receiving Disability Lifeline or ADATSA services; and (3) 27,000 undocumented kids on the Children's Health Program.*
- *\$425 million in reductions to higher education institutions which are partially offset by allowing tuition increases of 9 to 11 percent per year.*
- *Similar reductions in all other areas of state government.*

The percent reduction made in the Governor's proposed budget varies by functional area

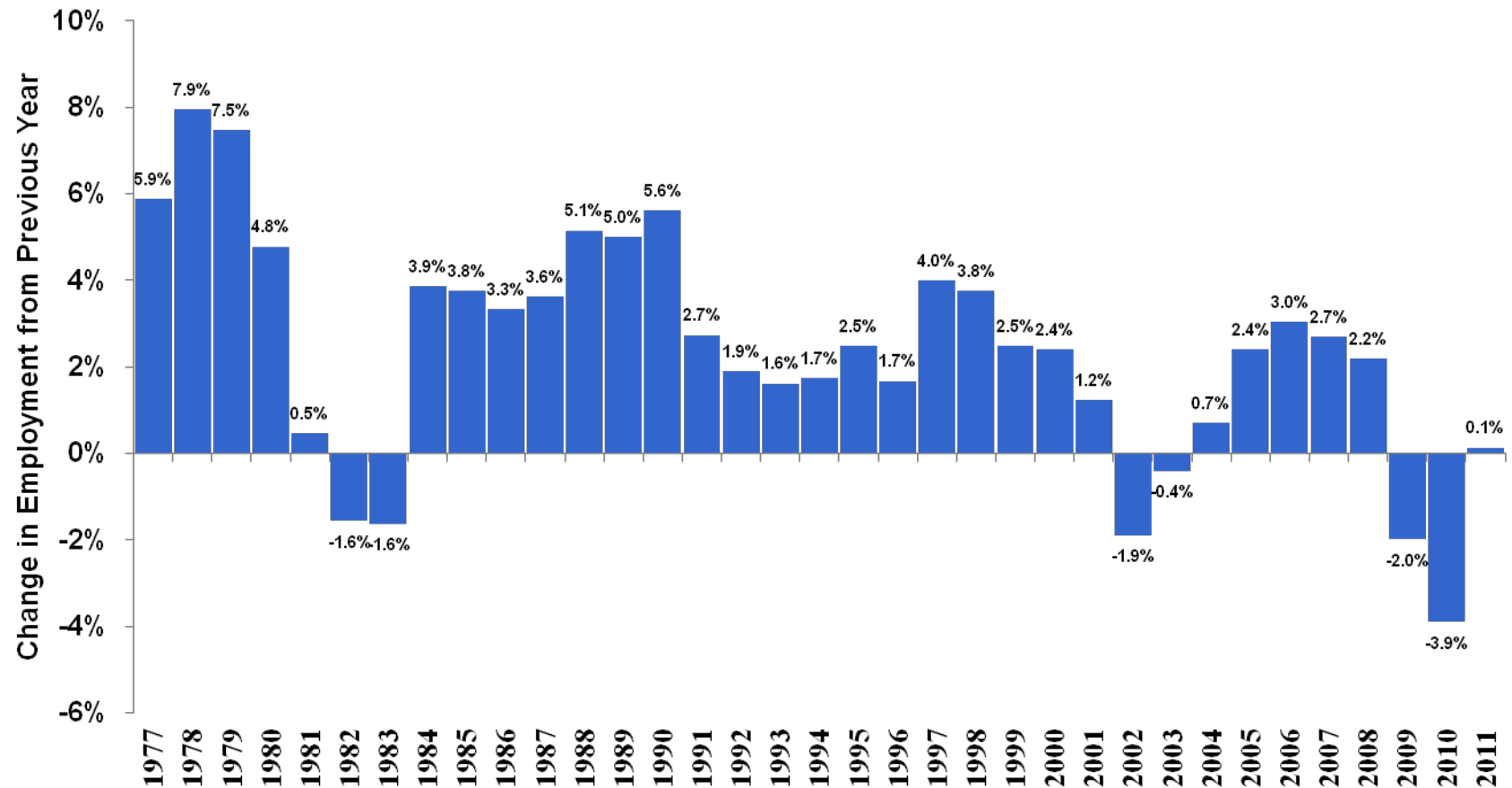


** Reflects 2011-13 net near general fund policy change after accounting for reductions and increases, but excludes impacts of compensation-related adjustments and some fund shifts. For higher education, the actual impacts would be partially offset by tuition increases.*

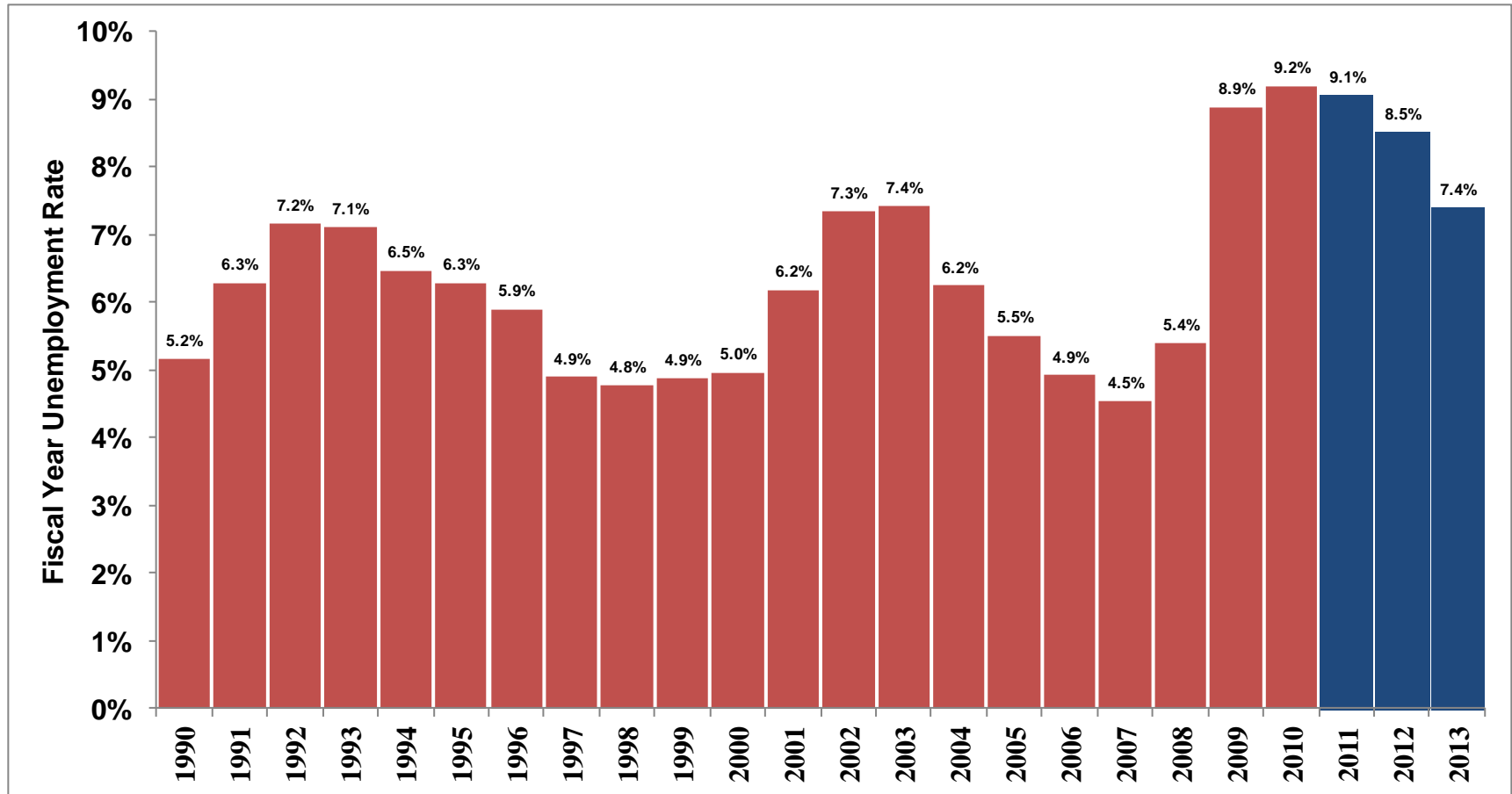


Appendix

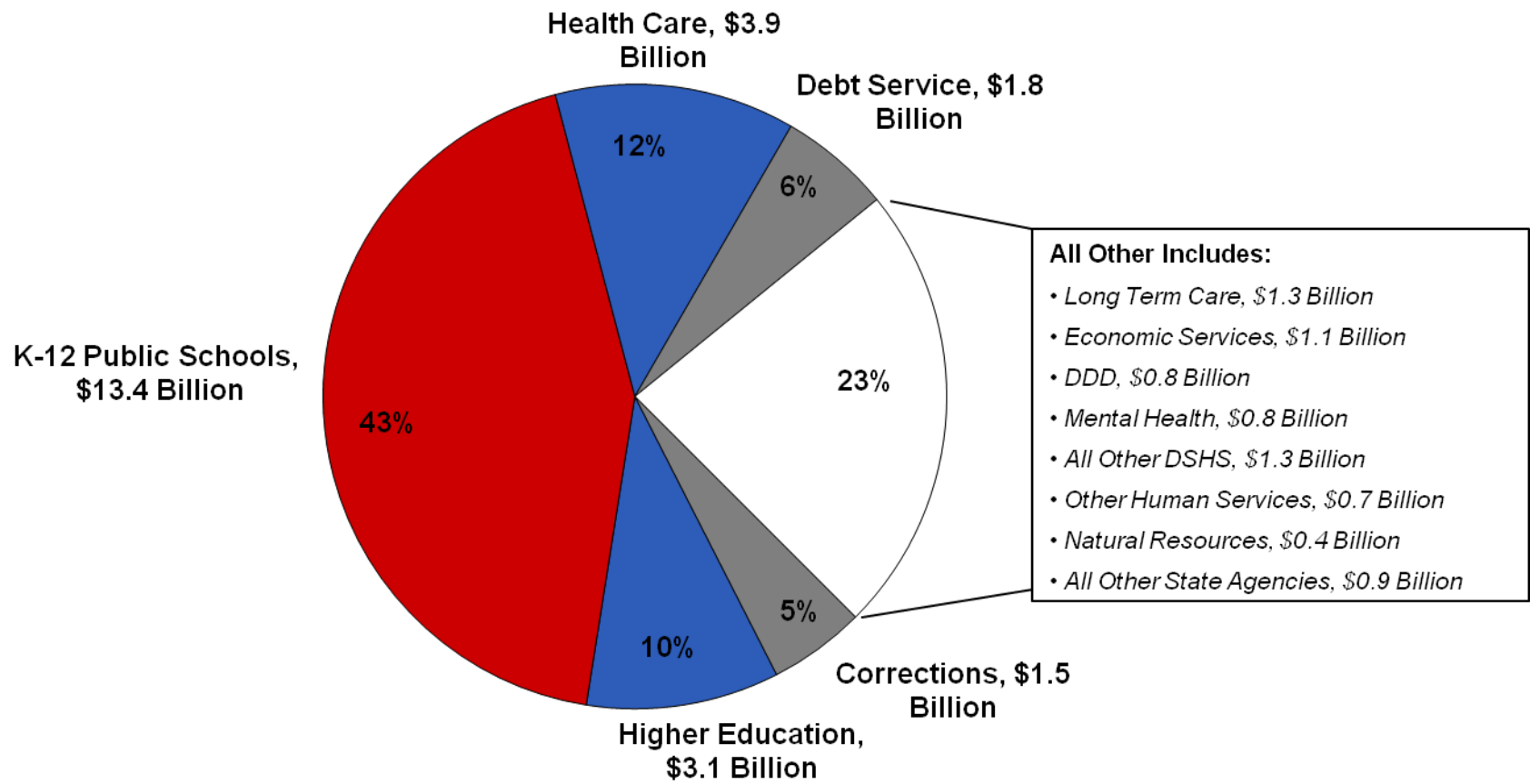
Washington experienced two consecutive years of employment decline and is expecting very slow projected growth for the current fiscal year



During the recession, the unemployment rate in Washington climbed to over 9 percent and is not expected to return to pre-recession levels for several years

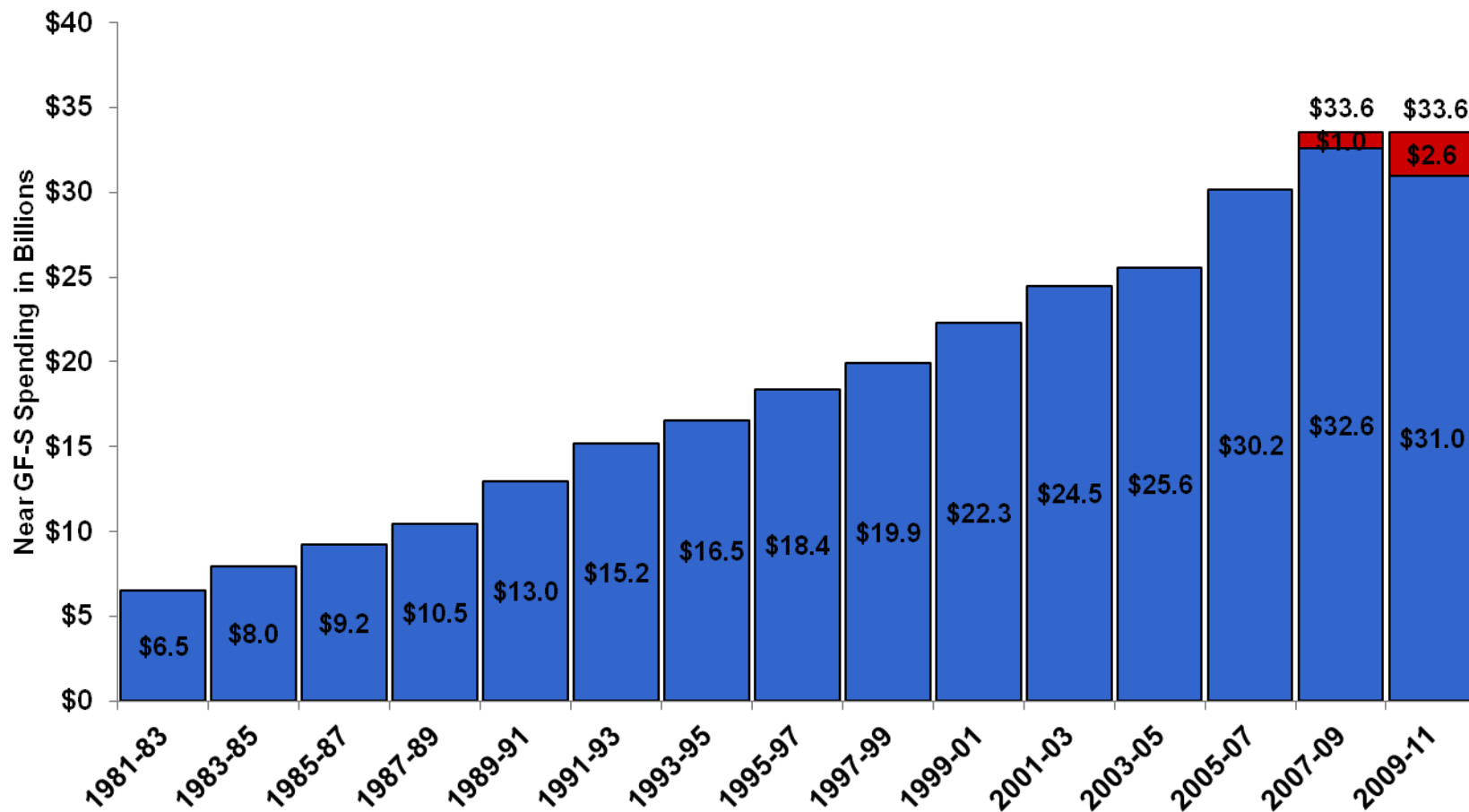


Over three-fourths of the near general fund operating budget is spent in five areas



Total 2009-11 Near GF-S Budget = \$31.0 Billion

Based on the enacted budget and even after adjusting for increased federal stimulus, the rate of growth in near GF-S spending is at lowest levels in at least 30 years



* Based on the 2010 enacted budget. After additional reductions are made in the 2011 supplemental budget, the growth rate is likely to be less.